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RUEHLO/AMEMBASSY LONDON 1127  
RHEBAAA/DEPT OF ENERGY WASHINGTON DC  
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STATE FOR NEA/FO, NEA/ELA  
NSC FOR WATERS  
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E.O. 12958: DECL: 02/26/2017  
TAGS: EPET ECON KPAL EG IS GZ  
SUBJECT: GAZA MARINE GAS FIELD: EGYPT DEAL UNLIKELY

REF: A. CAIRO - NEA/ELA E-MAILS  
1B. 06 CAIRO 4377  
1C. 06 CAIRO 3644

Classified by DCM Stuart Jones for Reasons 1.4 (b) and (d).

11. (C) As a prelude to his meeting with NEA A/S Welch in Washington on February 27, British Gas (BG) Head of International Government and Public Affairs provided Econoff with an update on the current status of BG's efforts to develop the Gaza Marine offshore gas field. The update was a follow-up to a January 18 meeting in Cairo with Econ/Pol M-C and Econoff (ref a).

12. (C) The BG rep said that Israel is demanding the right to purchase the gas and has been pressuring HMG on the issue. He had previously expressed to us that Israeli intransigence on pricing issues prompted a decision to bring the gas ashore in El Arish, Egypt, but apparently recent negotiations with the Israelis on commercial arrangements are heading in a more positive direction. Given GOI desires to diversify its gas supply beyond Egypt, BG feels an agreement by which the gas is transported by pipeline to Ashkelon would be the only amenable outcome for the Israelis.

13. (C) The BG rep told us the Israeli government is providing a Letter of Assurance regarding the Gas Sales Agreement, adding that Israel's desire to enter into a sales agreement acknowledges the field is a Palestinian asset and signals their willingness to pay the Palestinians for it through some "transparent mechanism," as yet to be determined, to ensure revenues are used for "legitimate government purposes." BG indicated that HMG has offered to assist in the establishment of the mechanism and that the revenue flows would be subject to international scrutiny. The sale of the gas, which could be brought ashore as early as 2009-10, could be worth between USD 60 and 100 million per year for the Palestinians for 15 years or more.

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Comment  
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14. (C) With USD 50 million already invested in the project, BG is looking to get this deal moving. Egypt would love to have the gas as feedstock for its LNG facilities, particularly with rising domestic gas consumption cutting into export supplies, but we have the distinct impression that any plans to bring it ashore in Egypt are off the table.

RICCIARDONE